CANRON INC.

Annual Report 1978

Contents:

Highlights

GANRON INC.

	1978	1977	Increase (Decrease)
	(in millions of dollars – except per share figures)		
Sales			
First Quarter	**$ 89.9**	$ 81.2	10.7%
Second	**$ 87.5**	$ 91.4	(4.2)%
Third	**$100.9**	$ 91.4	10.4%
Fourth	**$122.1**	$ 99.1	23.2%
Full Year	**$400.4**	$363.1	10.3%
Earnings			
First Quarter	**$ 1.7**	$ 1.5	12.7%
Second	**$ 2.7**	$ 2.6	3.6%
Third	**$ 2.8**	$ 2.8	(1.2)%
Fourth	**$ 4.2**	$ 3.5	23.3%
Full Year	**$ 11.4**	$ 10.4	10.1%
% of Sales	**2.9%**	2.9%	—
Order Backlog at year-end	**$215.5**	$171.4	25.7%
Working capital	**$ 79.8**	$ 64.4	23.9%
Capital expenditures	**$ 12.5**	$ 11.2	11.3%
Per common share			
Basic Earnings			
First Quarter	**$ 0.62**	$ 0.55	12.7%
Second	**$ 1.01**	$ 1.01	—
Third	**$ 0.97**	$ 1.08	(10.2)%
Fourth	**$ 1.53**	$ 1.32	15.9%
Full Year	**$ 4.13**	$ 3.96	4.3%
Dividends Paid	**$ 1.72**	$ 1.72	—
Book Value	**$32.07**	$29.74	7.8%

Common share market information

1978	High	Low	Close	Shares traded	Dividends paid A shares Cash	Dividends paid B shares Stock
First Quarter	23¾	22	23¼	132,550	$0.43	—
Second	27¾	23¼	27	207,751	$0.43	—
Third	29¼	26¼	26¾	95,974	$0.43	0.0176
Fourth	28¼	26⅛	27⅜	93,360	$0.43	0.0154
Full Year	29¼	22	27⅜	529,635	$1.72	0.0330
1977	25⅜	20	23⅞	666,885	$1.72	—

CANRON INC.

Canron Rebuilds Taiwan Dockside Cranes

On July of last year typhoon Thelma hit Kaohsiung, a principal port on the south coast of Taiwan and one week later typhoon Vera struck Taipei in the north. Both typhoons caused extensive damage to port facilities and left Taiwan with only one operational container crane in the entire country, out of a total of twelve. It was a major crisis, coming at a time when Taiwan was exporting record tonnages of consumer goods to its biggest market, North America. The container cranes are key elements in their distribution network.

Like most industrialized countries, Taiwan had adopted freight containerization in the shipping industry. World use of container units has tripled in the last five years. Container space on ships has more than doubled during the same period. A major advantage of containers is "door-to-door" service from shipper to customer, with contents sealed in the modular box, reducing losses through mishandling or theft. Containerization has consequently given rise to increased demand for handling equipment similar to the cranes destroyed in Taiwan.

The Taiwan government acted swiftly and expertly to repair the damaged facilities. The Kaohsiung Harbor Bureau immediately called for proposals from major container crane manufacturers including Canron's Star Iron and Steel Division in Tacoma, Washington. Bidding against strong international competition, Canron won contracts on four container cranes valued at $6 million in total.

The crane superstructures were fabricated by a local manufacturer, Chung Jung Steelworks Ltd., of Taiwan, under contract from Canron. Chung Jung also acted as manager of wiring and painting contracts, which were awarded locally.

Fabrication and erection of the first crane was completed in seven months — the normal time frame is 12 to 18 months. It was the fastest delivery yet for producing this type of crane. The last of the four container cranes will be completed in August.

All procurement of materials and contract administration was directed by Canron.

1978

Second Quarter

Report to Shareholders

CANRON

1, Place Ville-Marie, Montréal • Qué.

CANRON INC.

To the Shareholders:

Net earnings for the first six months of the current year were $4,377,000 or $1.63 per common share, 4.5% higher than in the same period last year. Sales were $177,393,000, up 2.8%.

In the second quarter, net earnings of $2,743,000 or $1.01 per share were the same on an earnings per share basis as the comparable 1977 period. Sales were $87,512,000 compared with $91,374,000.

Business conditions in the second quarter in the various markets for the company's major operations were generally unchanged from the beginning of the year. Canadian markets for construction and capital goods remained stagnant, while sales and profits of U.S. based operations continued at record levels.

The water pressure pipe market is still below normal in most areas of Canada with resulting negative impact on results of the Pipe Division. Profits of this division were also hurt in the second quarter by problems and start-up costs associated with the installation of new electric melt furnaces at the Trois-Rivières iron pipe plant. Most of the difficulties have been resolved and the product costs and productivity are expected to be close to normal for the second half of the year.

A significant number of structural steel and major equipment contracts in export markets were booked in the second quarter. The new contracts have assured full utilization of production facilities for the balance of 1978 and into 1979. Profit margins on contracts closed to date in 1978 and on recent bookings continue to be unsatisfactory.

The order backlog was $241 million at June 30, 1978. This is an increase of $34 million from the previous quarter and $55 million above the 1977 half year amount.

Thirteen labor contracts expired in the first half of the year of which five have now been settled. Contract negotiations have been complicated by the transition from AIB controls. In general, we are satisfied that the terms of the agreed contracts have been reasonable for both parties.

Estimate of net earnings for the year is unchanged at about $4.00 per share.

C. S. Malone
President and
Chief Executive Officer

Montreal, Que.
July 27, 1978

Consolidated financial summary six months ended June 30, 1978

(Unaudited — Thousands of dollars except per share amounts)

STATEMENT OF EARNINGS

	2nd Quarter		6 Months	
	1978	1977	**1978**	1977
Sales	**$87,512**	$91,374	**$177,393**	$172,545
Cost of Sales	**71,567**	75,814	**147,375**	144,734
Selling and Administrative	**9,758**	9,093	**19,518**	17,592
Interest	**1,312**	1,254	**2,542**	2,162
Income Taxes	**2,132**	2,566	**3,581**	3,960
NET EARNINGS	**$ 2,743**	$ 2,647	**$ 4,377**	$ 4,097
Earnings Per Share:				
Basic	**$1.01**	$1.01	**$1.63**	$1.56
Fully Diluted	**$0.99**	$0.98	**$1.60**	$1.52

SOURCE AND APPLICATION OF FUNDS

	6 Months	
FUNDS PROVIDED	**1978**	1977
Net Earnings	**$ 4,377**	$ 4,097
Depreciation & Amortization	**4,358**	3,942
Reduction on Long-Term Receivables	**495**	—
Proceeds from Issue of 1978 Preferred Shares	**15,000**	—
	$24,230	$ 8,039
FUNDS APPLIED		
Increase in Long-Term Receivables	**$ —**	$ 81
Fixed Asset Additions (net)	**6,671**	4,673
Repayment Long-Term Debt	**1,271**	1,475
Preferred Shares Redeemed	**—**	527
Dividends	**2,303**	2,304
	$10,245	$ 9,060
WORKING CAPITAL		
— Increase (Decrease)	**$13,985**	$ (1,021)
— Beginning Balance	**64,384**	61,764
— Closing Balance	**$78,369**	$60,743

Signed on behalf of the Board
H. J. Lang, Director
C. S. Malone, Director

Directors' report to the shareholders

Canron's 1978 consolidated net earnings came close to the operating budget projections for the year, although there were some significant variations in the results of several divisions.

For the third consecutive year the Canadian economy generated below average growth, primarily in the construction and capital goods sectors. The generally unsatisfactory results of the Corporation in Canada were offset by a combination of strong earnings in the United States and higher than anticipated translation rates into Canadian dollars for U.S. dollar sales and earnings.

Significant progress was made during the year in restructuring those operations where performance has been below potential. For the first time in over 10 years all divisions generated an operating profit.

Financial

Sales of $400 million in 1978 were the highest in the Corporation's history with most of the increase coming from operations outside of Canada. Net earnings of $11.4 million or $4.13 per common share were slightly ahead of 1977. As in the previous year, there was good profitability in the United States operations while Canadian profit margins were lower because of weak economic conditions and strong competitive market forces.

While a detailed review of the results of the operating divisions of the Corporation is provided in the following sections of this report, some of the highlights are summarized here.

In Canada, the steel industry operated at capacity levels aided by a formidable international competitive position. This resulted in strong demands for ingot moulds and stools from the Foundry division. At the same time products supplied by this division to the mining industry were below expectations because of over-supply in the copper and nickel world markets.

The performance of Pipe division was disappointing both as to sales volume and productivity at the ductile iron plants. The operating problems have been resolved and by year-end the performance of all three iron pipe plants was up to target levels although domestic market conditions remained slack. The lower value of the Canadian dollar has improved our international competitive position and will open up attractive export opportunities for pipe.

We did not expect a buoyant year for fabricated structural steel but good operating levels were maintained at all four plants. Despite difficult conditions, the year's results for the structural steel divisions were very satisfactory.

In the United States the Tamper railway track maintenance equipment and Pacific Press and Shear divisions continued to enjoy excellent business opportunities. Sales and operating profits for both were at record levels.

The corrective action taken in 1977 to reverse the losses of the Matisa railway equipment division, in Europe, was effective and a small operating profit was generated in 1978. Further progress is envisaged as the rebuilding program proceeds.

On balance, although consolidated results were close to expectations they fell short of the Corporation's goals of a 25% return on operating investment before interest expense and income taxes. We consider this an appropriate objective for a Corporation such as Canron. This target was reached by some divisions in 1978 and has been achieved previously by most other divisions under better economic conditions. The Canron goal of a 25% rate of operating profit, coupled with a capital structure of 35% debt and 65% equity would produce a return on common shareholders' equity of at least 20%, which is our other financial goal. In 1978, the returns on operating investment and on common equity were 16% and 12.8%.

Dividends paid in 1978 were 43¢ per quarter for a total of $1.72 in the year. This amounted to 41.5% of the year's earnings per common share. Over the past five years the dividends paid have averaged 35% of net earnings, which is in line with the Corporation's dividend practice of averaging between a 35% and 40% payout of net earnings.

Capital expenditures totalled $12 million and included new electric melt facilities at the Trois Rivières, Quebec, ductile iron pipe plant and the New

Howard J. Lang, Chairman (left) and Clifford S. Malone, President and Chief Executive Officer.

Liskeard, Ontario, foundry. In addition, the first stage of modernization to increase the range of product capabilities of the St. Thomas, Ontario, foundry was completed. In 1979 fixed asset additions are budgeted at $16 million and will include expansion of the West Columbia, S.C., plant of Tamper division and the Mt. Carmel, Ill., facilities of Pacific Press.

Capital reorganization

At the Annual and Special Meetings of Shareholders in 1978, approval was given to change the corporate name to Canron Inc. The new name is bilingual and has simplified communications in both official languages. The common share capital was also changed into inter-convertible Class A and Class B common shares. The purpose of the change was to allow shareholders to take advantage of the amended Canadian tax treatment of stock dividends. The shares of each class are identical in all aspects except that the holders of Class B shares may receive their dividends in the form of additional Class B shares to a value equivalent to the cash dividend paid on the Class A shares based on the then current market value of the shares.

Management changes

Several changes in management personnel and organization structure took place in 1978. Harold Koenig, who had been general manager of Matisa in Switzerland during the transition period of that division, assumed temporary responsibility for Pipe division. He was replaced at Matisa by Ragnar Blomqwist, who joined the Canron organization following wide experience in Europe with other international companies. Mr. Blomqwist reports directly to William S. Cullens, Executive Vice President and Chief Operating Officer. Arnold F. Bygate was appointed General Manager, Tamper division.

Norman Dickinson, General Manager of Eastern Structural division, also assumed the

additional responsibility for management of Mechanical division.

Changes in corporate staff included the retirement of Patrick M. Draper, Vice President and Secretary, after 26 years with the Corporation and the appointment of Gerald Lefebvre as Corporate Secretary and William C. Hamilton as Corporate Controller.

In March 1979, Guy F. Talbot, Group Vice President, assumed direct responsibility for Pipe division and Harold Koenig took on several senior consultative assignments.

Five years ago an executive office was established in Toronto in order to locate some senior management closer to expanding business activity in Ontario and Western markets. While this decision has served the Corporation well, it has become obvious that due to the nature of our corporate organization with a small core of senior officers and decentralized operations, the split executive office structure is inhibiting effective senior management communication and efficiency. The decision has been made to consolidate the two executive offices of the Company in Toronto in mid 1979.

Outlook

The uncertainty of the economic scene in Canada and the United States would ordinarily result in a pessimistic outlook for 1979. However, we feel that further improvement can be anticipated as several of the Corporation's businesses enjoy strong market positions and others should benefit from restructuring efforts undertaken in 1978.

New product development has played an important role in the growth of Tamper and Pacific Press divisions, both of which enjoy leadership in expanding markets in the United States and internationally. In Europe, results of Matisa should continue to improve.

It appears that the Canadian business environment will be static in 1979. However, Foundry division will enjoy strong demand from the steel industry and the modernization and product development programs undertaken in recent years have already proven beneficial. Mechanical division has an excellent and diversified order book and good prospects for additional business in domestic and export markets.

We do not anticipate any significant strengthening in early 1979 in demand for structural steel and overcapacity in this industry will once again result in a very competitive market. Later in the year demand may improve but this will have little impact on 1979 results.

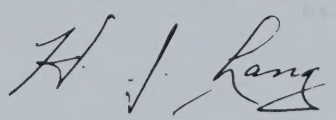
Of particular importance to Canron is the expectation for better profitability of the Pipe and Plastic Pipe divisions. The cost reduction, product improvement and revised marketing strategies of these divisions as well as the Canrep distribution division should ensure better results.

Export opportunities are being aggressively pursued as the current value of the Canadian dollar has improved the competitive position of many products. Exports could be a significant factor in 1979.

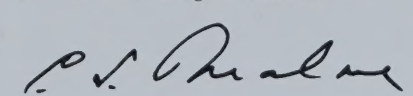
The Corporation will continue to seek out new business opportunities through internal growth and acquisitions. In this area we are looking for investments related to businesses in which Canron has gained experience from marketing, technological and production know-how and which can be expected to be leaders in the markets to be served. Our financial criteria, as mentioned previously, require the ability of a business to achieve a 25% return (before income taxes and interest expense) on the total operating investment.

Canron officers and employees are committed to achieve corporate objectives. For their contribution and efforts we express the appreciation of the Board of Directors.

On behalf of the Board.



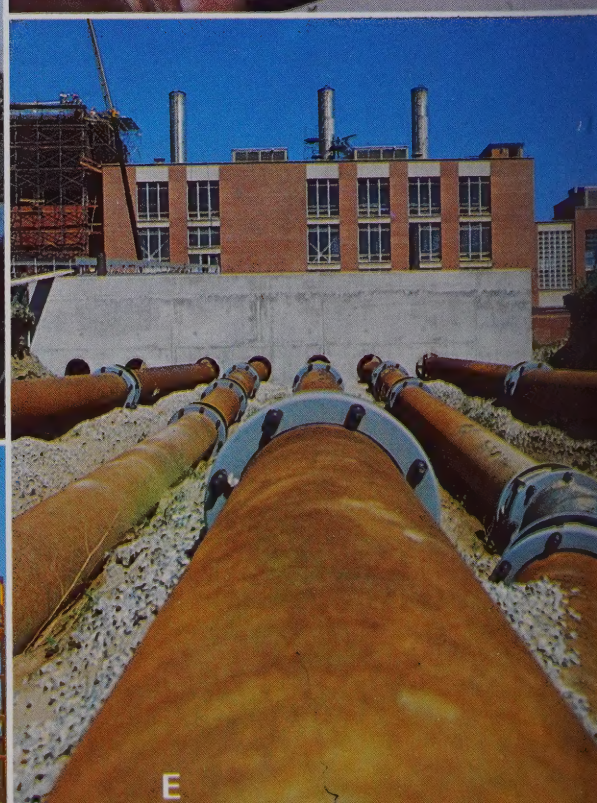
Howard J. Lang, Chairman



Clifford S. Malone,
President and Chief Executive Officer

Montreal, March 30, 1979

A *Canron is Canada's largest producer of ductile iron pipe, the standard of the water works industry.*
B *Building drainage sewer pipe (shown here) is part of Plastic's complete line of plastic pipe and fittings for housing and other building applications.*
C *Hyprescon high pressure water pipe is manufactured from a steel cylinder that is concrete lined, wrapped with high tensile steel wire and coated with cement mortar to produce a high strength, corrosion resistant pipe for major water mains (photo – 108" diameter Hyprescon pipe).*
D *Large diameter Hyprescon pipe receives mortar coating in this portion of the Ville D'Anjou, Quebec plant. Other Canron Hyprescon plants are located at Rexdale, Ontario and Cochrane, Alberta.*
E *Wear Resistant pipe, manufactured with the same basic technology as ductile pipe, provides high abrasion resistance for such applications as slurry pipelines for fly ash and mine tailings.*
F *Canron Plastic rigid PVC electrical conduit protects electrical and communications wiring in both buried and above ground installations.*



Operations

Pipe

Pipe division experienced a disappointing year. While sales were steady, profits declined substantially. Factors contributing to the decline included reduced public works spending for water distribution, and fewer housing starts. Competition for export orders was more intense as a consequence of the generally lower level of world economic activity and some curtailment of Canadian International Development Agency (CIDA) project funding.

Operating problems at two plants were responsible for excessive production costs for

a part of the year, with resulting loss of profits. The problems were identified in the course of the year and manufacturing costs are again at target levels.

The marketing and product engineering capabilities of the division were strengthened as part of a general reorganization carried out during the year. Additional resources were allocated to the division's international marketing operations.

An increased number of major international projects are presently under consideration. Included is a feasibility study in conjunction with Surveyer, Nenniger & Chenevert Inc. (SNC) for a potable water supply system in Costa Rica.

The new electric furnace installation at the Trois-Rivières iron pipe plant was completed in the spring. While this major installation caused some production problems at start-up, these have been eliminated. In addition to producing superior products at lower cost, the electric furnace virtually eliminates all of the environmental pollution problems associated with cupola type furnaces.

1979 is expected to show substantially better profits mainly through improved operating efficiencies with only a slight increase in sales. Export orders booked to date in 1979 and a good opening backlog provide a strong start for 1979 operations.

Plastic

Demand for plastic plumbing and piping products was static in 1978 as a consequence of reductions in new housing starts. The highly competitive market conditions resulted in lower profitability for the division compared to the previous year.

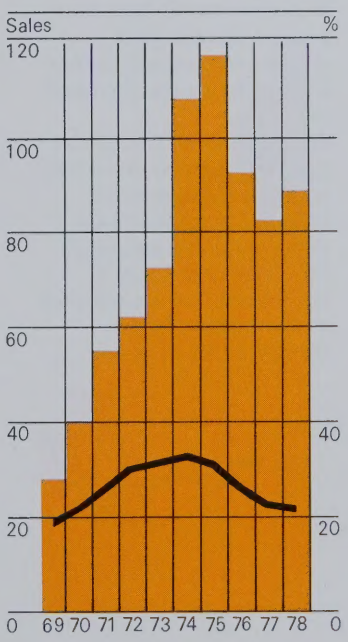
Several major product lines were particularly affected by excess capacity and low market prices. Such products were closely tied to housing and included DWV (drain, waste, vent) and domestic sewer pipe.

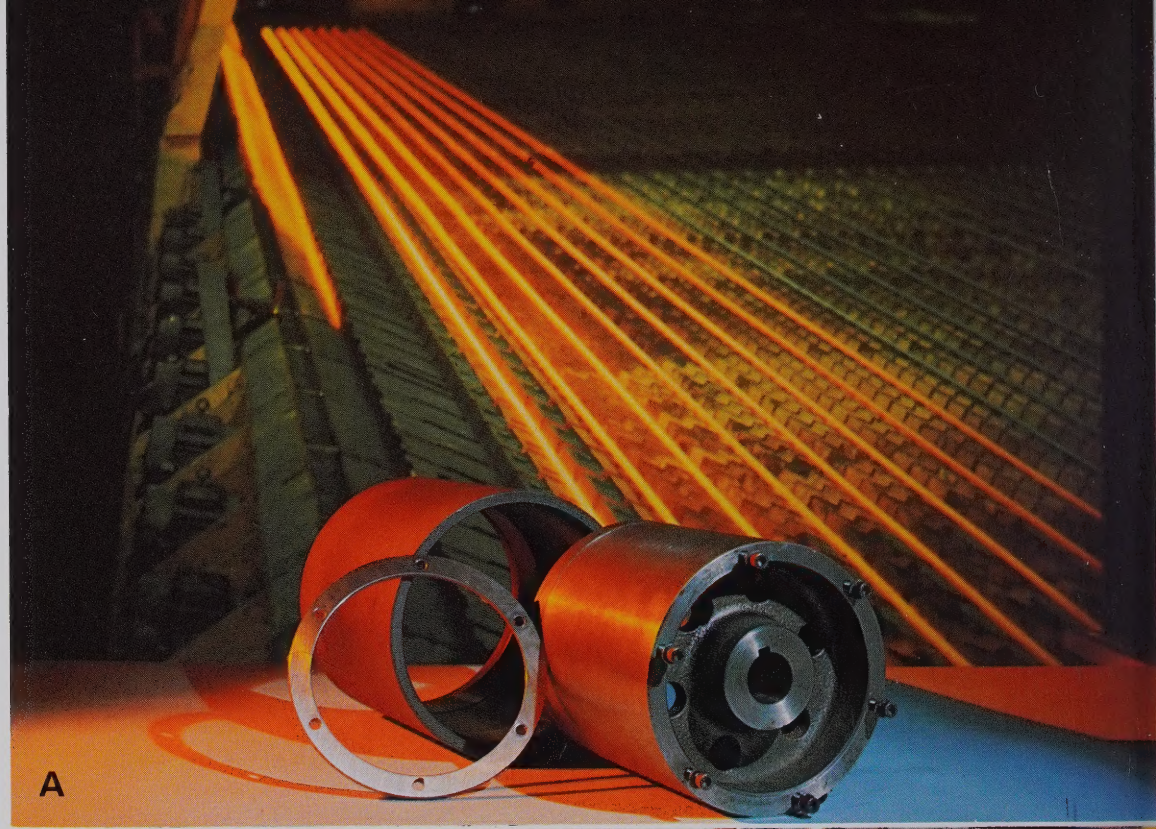
The more specialized electrical products, rigid PVC conduit and underground ducting, performed well in a fairly stable market.

A municipal sewer pipe product line was introduced in 1978. Initial results were very successful and it is planned to expand the product line up to 12-inch diameter pipe during 1979.

Current forecasts show further reductions in housing starts for 1979. The division expects to concentrate on more specialized groups of products. Particular attention will also be given to reduction of costs. Success in these objectives will improve the profitability of the division.

Pipe sales
(in millions of dollars)
Percentage of
total corporate sales





A *Domite CM carrier rolls resist the extreme wear from red hot reinforcing bar passing over the bar mill cooling bed.*
B *Canron moulds, made from a special thermal shock resistant iron, are stripped from steel ingots in a Hamilton steel mill.*
C *The Canron CT fire hydrant combines functional simplicity with graceful appearance.*
D *These Canron Wabi side dumping ore cars are one of many specialized types of underground railcars produced in New Liskeard for the Canadian mining industry.*

Foundry

The division had record sales in 1978. Operating profits were closer to normal following distortions in 1977 as a result of AIB regulations.

Strong activity throughout 1978 by Canadian steel mills created heavy demand for the division's key product – ingot moulds. Extension early in the year of the cooling and cleaning areas in the ingot mould plant enabled the division to handle the heavy production requirements of the second half of the year.

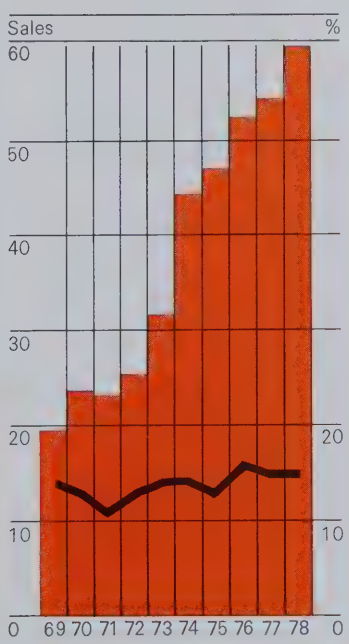
The alloy foundry produced excellent results. Development of new products, particularly heat resistant stainless iron consumable castings, and a complete overhaul of production equipment and operating procedures were instrumental in the renewed success of this operation.

The first phase of modifications and improvements to the Taccone production moulding machinery and sand system at St. Thomas was completed in the third quarter of the year. The cupola furnace at the Wabi foundry in New Liskeard, Ontario was replaced by two electric furnaces.

The new and improved equipment is part of the division's business strategy to expand its range of iron alloys and product applications. This will increase the variety of products and gain access to additional markets. The division will also endeavor to reduce its dependence on products for markets subject to excessive fluctuations of activity, i.e. the mining industry.

Current projections indicate that 1979 will be another good year for the division. Continuing strength of the Canadian steel industry should ensure strong demand for Canron ingot moulds. The same holds true for products of the other foundries except Wabi which will again be adversely affected by strong competition for limited mining industry business.

Foundry sales
(in millions of dollars)
Percentage of
total corporate sales



A *The Tamper Mark II Electromatic with torsion beam attachment shown tamping, levelling and lining track in downtown Toronto.*
B *The Trac-Gopher is a multipurpose track maintenance machine that mechanizes reballasting of road crossings, digs trenches for pipelaying and clears ballast between tracks.*
C *The Matisa C330 ballast cleaner excavates, screens and redistributes in excess of 600 cubic metres of ballast per hour.*
D *The Matisa B242 tamper is a high speed tamper leveller, liner capable of production speeds up to 1200 metres of track per hour.*

Tamper

Tamper's 1978 sales and operating profits were at record high amounts. Strong demand for traditional equipment and parts was augmented by increased contracting activity and the introduction of large track renewal equipment.

Canadian orders were at record high levels as a result of the Prairie Branch Line Rehabilitation projects sponsored by the federal government. Export sales increased in 1978 with major orders to Argentina, Mexico and Bolivia. Australian operations were also up over the previous year.

The North American version of the Matisa designed P-811 track renewal train is proving to be a major success. The first North American machine was sold to Canadian National Railways in 1977. The second machine and first to the United States was delivered in 1978 to Amtrak. An order is in hand to supply a P-811 to Fluor Corporation in connection with their contract for rebuilding the Hammersley Iron Ore rail line in North-

western Australia.

A derivation of the P-811, the Rail Change Out or RCO machine, was designed and manufactured in 1978 and sold to Canadian National Railways. The P-811 and RCO machines represent radical improvements in the concept of tie and rail renewal and both are expected to be key factors in the extensive upgrading of track required in North America, particularly the U.S. northeast.

Another major Tamper equipment development in 1978 was delivery to British Rail of the first model B-341 high speed tamping machine. This machine is a unique combination of North American and European technology.

The steady increase in sales volume and equipment development necessitates further expansion of the Columbia, South Carolina office and plant. Construction commenced in January 1979 and when completed in May 1979 will add 20% to the Columbia facilities.

Further gains in sales and operating profits are projected for 1979. The division commenced the year with a good backlog of both domestic and export orders. Railway upgrading in the U.S. with funding under the Railroad Rehabilitation and Regulatory Reform Act should ensure a continuing demand for Tamper equipment. An upsurge in contracting services is also anticipated as U.S. railroads adopt alternate strategies to accelerate maintenance work.

Matisa

The division generated an operating profit in 1978 following four years of losses. Sales for the year were higher than 1977 in spite of the problems of strong international competition and continued appreciation of the Swiss franc against most other currencies (only a small portion of Matisa sales are made in Switzerland).

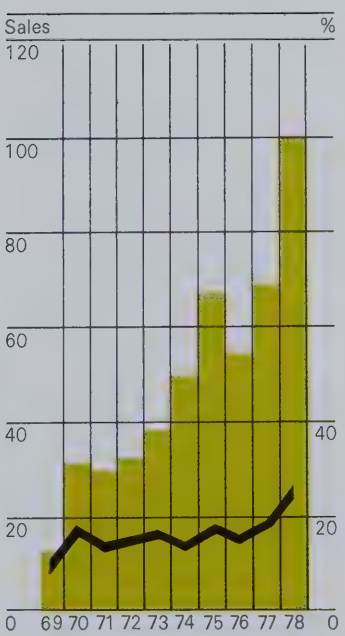
Substantial sales to Japan of B-85 tamping machines made a major contribution to the improved results in 1978. Sales of the large C-330 ballast cleaner have increased and the second of a four unit order for Bulgaria was delivered during the year.

Two of the Matisa designed P-811 track renewal trains were constructed and delivered in 1978 to customers in Belgium and Italy. Further developments of this equipment are currently under way and are expected to improve and expand the markets for this machine which has radically altered the techniques for tie and rail renewal for railways throughout the world.

A variety of Matisa machines were delivered during 1978 to customers in Sweden, West Germany, Eastern Bloc countries, Spain and several African countries.

The outlook for 1979 indicates continuation of the trend of profitable operation compared with earlier losses ; the opening backlog provides a solid start for the year's operations. Good headway has been made over the last eighteen months in solving many of the problems which have hampered the division. Further progress is expected in 1979.

Railway equipment sales (in millions of dollars)
Percentage of total corporate sales



A *Western Bridge fabricated and erected these mammoth penstocks for B.C. Hydro's Seven Mile hydroelectric project.*
B *An Eastern Structural crane lowers the massive main girder for the banking hall of Toronto's First Canadian Place.*
C *The unusual space frame roof over the Royal Oak shopping plaza in Vancouver was fabricated and erected by Western Bridge.*
D *Eastern Structural handled the renovation of the Ivy Lea bridge that crosses the St. Lawrence River between Gananoque, Ontario and New York State.*
E *Starporter* high speed container cranes have made Star Iron and Steel a world leader in port container handling equipment.* *TRADE MARK
F *Canron Construction Services handled the complex structural and mechanical assembly of this giant stacker reclaimer at the coal handling facility of Ontario Hydro's Thunder Bay Generating Station.*

Western Bridge

The value of contracts completed in 1978 was slightly ahead of last year; however, operating profits were down substantially from the 1977 record amount. The reduced profit was a direct result of continued deterioration of the western Canada structural steel market.

Western Bridge succeeded in booking during 1978 a major share of available contracts in the western Canadian market. Special efforts in export markets as well as northwestern United States (through Star Iron) brought several major contracts to the division. These include design, fabrication and erection of the longest railway bridge in Costa Rica, erection of hydraulic gates in Ghana and fabrication and erection of the Boeing plant expansion in Everett, Washington (15,000 tons).

The Vancouver plant operated at about 75% of normal capacity throughout the year. Work at the Star Iron plant in Tacoma increased dramatically in the second half of 1978, creating some disruptions and

inefficiencies in production. The Star organization has been strengthened to handle the expanding shop load.

Large contracts completed in 1978 included B.C. Hydro Peace River Site I and Seven Mile powerhouse, penstocks and other structures, Calgary Power Sundance No. 6 powerhouse, bridges in Alberta and British Columbia, four container cranes for Taiwan and Lockheed Shipbuilding king post crane. The last two contracts were executed by Star Iron.

Both Western Bridge plants have full shop loads for the first quarter of 1979. There are signs of improvements in market prices but the impact on profits will not be apparent before 1980. Meanwhile, sales for 1979 could be slightly higher than 1978, but operating profits will be lower.

Eastern Structural

Sales and operating profit for 1978 were up slightly compared with 1977. Major jobs completed during the year were the Dofasco melt shop (22,000 tons), a stacker and reclaimer at Thunder Bay (500 tons) and the St. Felicien, Quebec pulp and paper mill (1,200 tons).

The structural steel industry in Canada experienced another poor year in terms of both contract volume and prices. Aggressive pursuit of export markets, aided by the lower value of the Canadian dollar enabled Eastern to obtain contracts in the United States (bridges in Troy and Rochester, New York; paper mill in Bear Island, Virginia), Ghana (joint venture with Mechanical Division for hydraulic gates) and Jamaica (bridges).

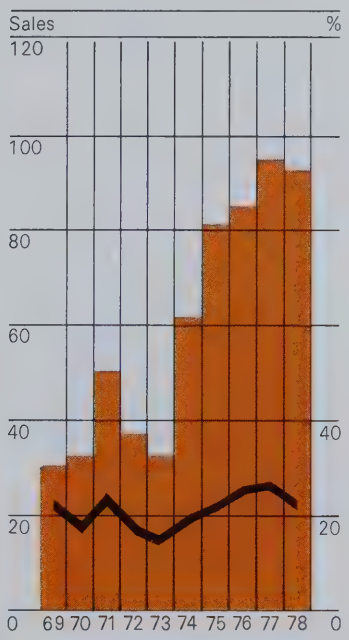
The division succeeded in winning a large share of structural steel contracts let in eastern Canada during 1978. Contracts included the Alcan pot line at La Baie, Quebec (3,000 tons), Lingan generating station, Nova Scotia (2,500 tons), Ontario Hydro Bruce "B" generating station joint venture with Frankel Steel (38,000 tons), General Motors, Windsor, transmission plant (4,500 tons) and the Olympia & York 35-storey Sun Life building in Toronto.

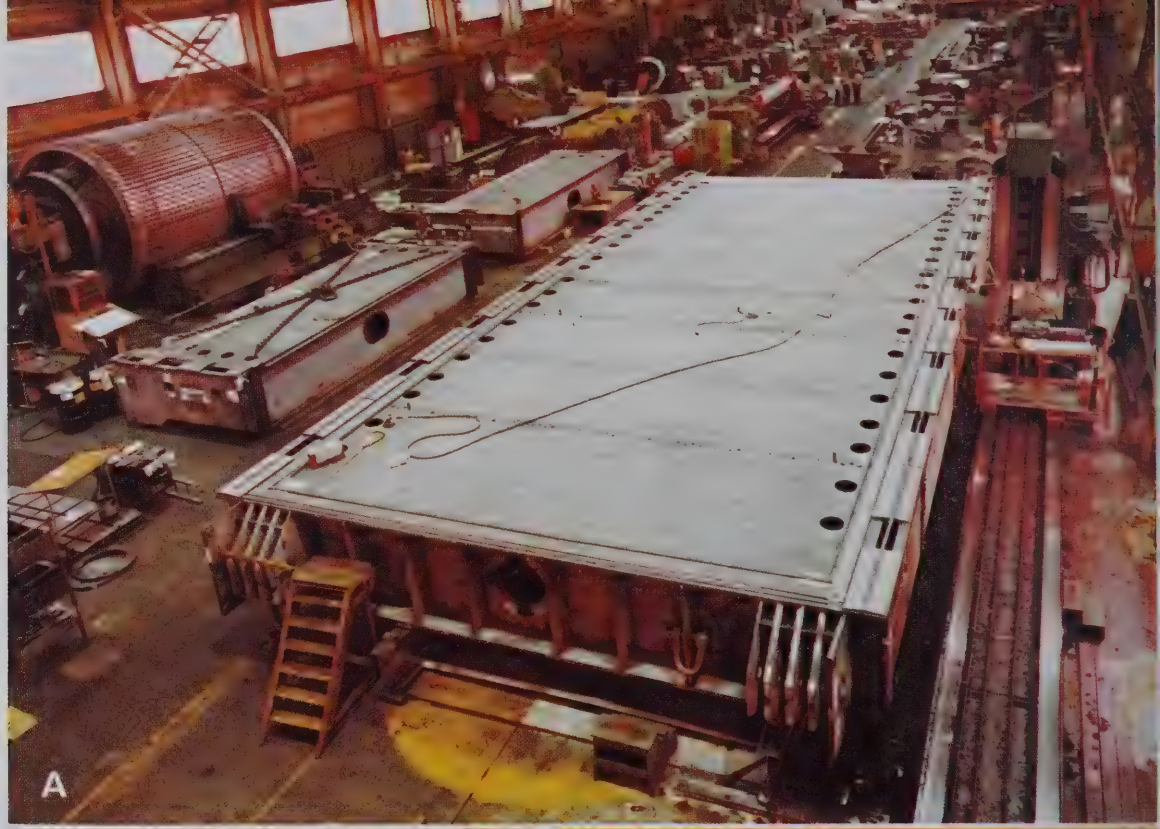
The division's plants at Toronto and Montreal operated at about 75% of normal capacity. This is the same rate as the previous year.

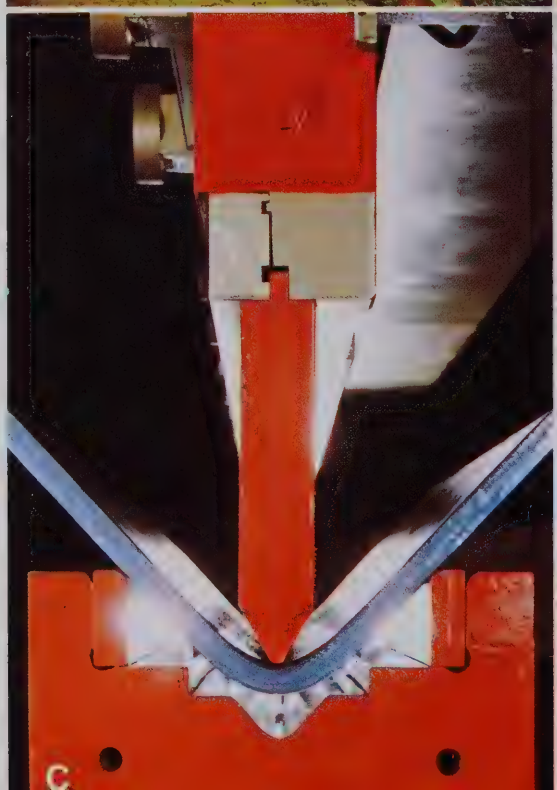
Material shortages occurred in the second half of 1978 as a result of an anti-dumping decision taken by federal authorities. This condition adversely affected the entire Canadian fabricating industry and is expected to continue into 1979.

Sales and profits for 1979 are likely to be lower than the previous year, reflecting the poor market conditions of the past several years. Structural steel markets are expected to improve later in 1979, but the impact of these improvements on profits will not show before 1980.

Structural sales
(in millions of dollars)
Percentage of
total corporate sales







A *Mechanical division manufactured a series of these large hydraulic gates for the Societe d'Energie Baie James project in northern Quebec.*
B *This slab pusher was built by Mechanical division at their Trois Rivieres, Quebec plant for export to North Star Steel Co., Iowa.*
C *Pacific is the world leader in the design and production of hydraulic metal forming machinery.*
D *The new line of Pacific OBS (Open Back Stationary) hydraulic presses introduced in 1978 received an unprecedented response by the metalworking industry.*
E *These two 225 ton 17 feet capacity Pacific presses can be operated in tandem or disconnected with a single switch for independent operation.*

Mechanical

1978 sales and operating profits were reasonably satisfactory, although lower than 1977. New orders booked during the year were substantially higher than anticipated.

The lower value of the Canadian dollar in 1978 relative to currencies of major competitors in Europe and Japan was a strong factor in obtaining a number of export and domestic equipment orders.

Plant activity increased during the year and was at record levels in the second half of 1978. This high level of activity required seven-day, round-the-clock operation of several key machine tools. Some problems were experienced in recruiting and training new employees for the special skills required in Mechanical's operation.

A large engine lathe was installed in 1978. Further machine tool additions will be made in 1979.

Contracts are in progress on hydraulic gates for the hydroelectric projects at James Bay and the Volta River Authority, Kpong, Ghana (the latter is a joint venture with Canron Eastern Structural Division). Other contracts include steel mill equipment for several U.S. and Canadian projects.

Mechanical division and B & K Machinery International Ltd., Mississauga, Ont. entered into a joint venture to design and supply one of the world's largest steel strip paint coating lines to the Ohio plant of Pre Finish Metals Incorporated. The contract is scheduled for completion early in 1980.

The current order backlog extends beyond 1979. The product mix will provide better plant utilization for 1979 compared with 1978. These conditions as well as a high level of new project inquiries indicate that 1979 sales and operating profits will be higher than the previous year.

Pacific

Pacific set new record highs in 1978 for sales and operating profit. Orders booked in the year were 80% above 1977 and resulted in a record backlog at year end.

Production for most of the year was on a three shift operation. Plant capacity was stretched, but some increases were achieved through improved production scheduling and additional machine tools.

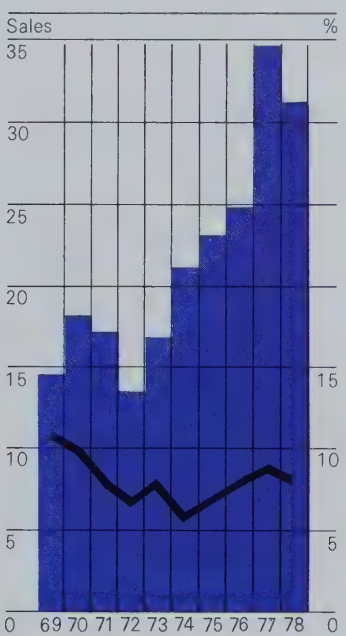
The division expanded its plant space and acquired specialized machine tools to manufacture the 1¼" hydraulic control valve used exclusively on Pacific products. These valves were previously purchased from outside sources.

Substantial increases in sales of the larger straightside and pressformer models and the general increase in volume of other models will necessitate further expansion of plant facilities in 1979.

The Open Back Stationary (OBS) hydraulic press developed late in 1977 was introduced to the market in the spring of 1978. The favourable response to this new machine exceeded anything previously experienced by Pacific and first year sales were excellent. Work is already under way to expand the product line with larger tonnage and higher speed models.

The 1979 outlook for the U.S. machine tool industry is favorable. A high opening backlog and steady demand for Pacific machines indicates the probability of 1979 sales and operating profits exceeding the 1978 amounts.

Machinery sales
(in millions of dollars)
Percentage of total corporate sales



A *Canrep provides warehousing distribution and technical service for a wide assortment of capital equipment and industrial operating supplies throughout Canada.*
B *The Calvert operation of Canrep has expanded its capabilities to manufacture this isolated phase bus duct shown at an Edmonton Power generating station.*
C *Canrep's transportation products group supplied the sophisticated couplers shown here on the newest Montreal Metro cars.*
D *Grove gate valves from Canrep in sizes from 14 to 60 inches are used for natural gas and oil pipelines.*

Canrep

The program to increase the effectiveness of Canrep's operations produced positive results in 1978. In spite of slightly lower sales, operating profit improved over the unsatisfactory result of the previous year.

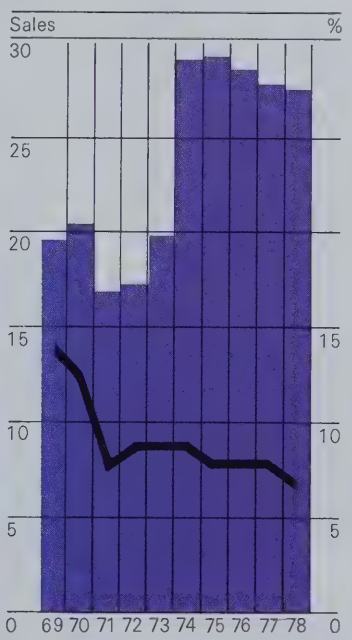
Sales of railway, transit and aerospace products were excellent with an increased backlog at the end of 1978. Low activity in the gas and oil pipeline business and continued delays in the start-up of major projects resulted in below normal level of valve sales. General industrial product sales were also down for the second successive year. The general industrial products are marketed to many of the segments of Canadian industry which are currently experiencing low rates of activity.

1978 profits and sales of Calvert bus duct were about the same as the previous year. This manufacturing operation has been upgraded to produce isolated phase bus duct which is a more sophisticated product. The Calvert operation is now managed as a separate product line with its own specialized sales organization. The level of orders booked has increased significantly and the year-end backlog for Calvert products stands at a record high amount.

The division strategy is to have a range of products which will enable it to provide operating and capital project supplies to a large segment of Canadian industry. Steps are being taken to acquire representation for additional products in the areas of maintenance, repair and operating supplies and further develop material handling and technical products.

The projection for 1979 indicates good growth prospects for both sales and operating profits, particularly in the general industrial and Calvert product lines.

Distribution sales
(in millions of dollars)
Percentage of
total corporate sales



Personnel

The Company believes that an environment which fosters a mutually beneficial relationship among all employees is essential if corporate objectives and personal goals are to be realized. Management is firmly committed to strengthen this concept and programs have been established to ensure that all employees have the opportunity to participate.

A two-day Corporate seminar attended by 65 employees from various levels of management was held in October 1978. Discussions centered on planning, organizing, implementing and controlling the total management process. Intensive management education and training are on-going throughout the Company.

Labour relations in Canada saw the phase-out in 1978 of A.I.B. controls. Twenty-two contracts were renegotiated : two for one year, eighteen for two years, and two for three years, with all but five exempt from A.I.B. controls. Settlements averaged about 4% per year plus some form of cost-of-living allowance. Western Bridge had a strike of one month duration in the course of 1978 negotiations. Five agreements expire in 1979 and two are outstanding from 1978.

Health and safety are a major concern at all levels of management and accident prevention is a key factor in the Company's basic operating practices. This, together with active employee participation on safety committees, continues to reduce the number and severity of industrial accidents. First aid and safety training for employees was particularly effective in the Foundry Division where for the first time in recent years, all five plants had accident frequency rates well below the industry average.

A comprehensive group benefit program provides a major portion of the financial welfare of employees and their families in the event of illness, disability or death, and assists the employees in building towards a financially secure retirement. The cost of these benefits together with vacations, statutory holidays and government legislated benefits is becoming more significant each year. Currently for every dollar which goes to wages and salaries, a further 32 cents is spent for benefits.

Company pensions are being paid to 897 retired employees or widows of deceased employees, together with long-term disability payments to 99 employees.

First time awards were made during 1978 under the Company's Howard J. Lang Scholarship Program. The large number of applications was extremely encouraging and reflected a high standard of excellence in both scholastic and community activities. Winners of the awards for 1978-79 academic year were (A) Pierre Tétreault, son of Roger Tétreault of the Railway Division, Toronto; (B) Carolyn Sue Bird, daughter of Marshall Bird of Tamper, West Columbia; (C) Incoronata Greco, daughter of Raphael Greco of the Mechanical Division, Montreal and (D) Michael Gertler, son of Abe Gertler of the Corporate Office.

Financial review

Summary
Market conditions in Canada were very competitive throughout 1978 in the capital goods and construction segments of the economy. As a direct consequence, price increases generally lagged the higher costs of goods and services for the Company's Canadian operation.

Major gains in both volume and profitability were realized by the Company's non-Canadian operations.

While the Canadian anti-inflation program (AIB) remained in effect throughout 1978, its impact on the Company's operations was nominal. Market forces were largely responsible for pricing and wage decisions affecting Canadian activities.

Working capital increased in 1978 over the prior year amount. The working capital ratio was unchanged for the year.

Capitalization was again strengthened by additional preferred equity as well as reinvestment of net earnings.

OPERATING RESULTS

	(millions) 1978	1977
Sales	**$400.4**	**$363.1**

Sales for 1978 were 10.3% or $37.3 million higher than the previous year and established a new record (the previous record was $366 million in 1975). About half, or $19 million of the gain resulted from higher volume and price increases. The remaining $18 million was attributable to currency translation for sales of the Company's non-Canadian operations.

Sales by product classification were as follows –

	1978	Increase (Decrease) from 1977
Foundry	$ 59.8	$ 5.4
Pipe	88.1	5.4
Machinery	31.7	(3.2)
Railway	100.3	31.6
Structural steel	92.8	(1.7)
Distribution	27.7	(0.2)
	$400.4	$37.3

The high level of activity in 1978 of the Canadian steel industry had a positive impact on Foundry sales of ingot moulds. Gains in this product exceeded reductions in castings for the mining industry which was depressed in 1978 as a result of strikes and poor market conditions.

Pipe gains came primarily from price increases necessary to cover a portion of the higher costs for labour, purchased material and services.

Both the volume/price and currency translation factors were applicable to the major gain in railway equipment sales (Tamper and Matisa).

U.S. machinery sales volume was up substantially for the year. There were no large machinery contracts completed during 1978 in Canada, causing a sharp decline in Canadian machinery volume compared with the preceding year. The combined result for machinery sales was a net decrease in 1978.

	(millions) 1978		1977	
Sales	$400.4		$363.1	
Cost of sales	335.3		302.5	
Gross margin	**65.1**	**16.3%**	**60.6**	**16.7%**

The modest reduction in the gross margin rate to 16.3% for 1978 reflects a variety of results for the operating segments.

Foundry showed improvement following the negative impact in 1977 of AIB imposed constraints. Operating problems and poor market conditions for the pipe divisions reduced margins, particularly for water pressure pipe.

Railway equipment and machinery margins showed overall gains with significant improvement at Matisa.

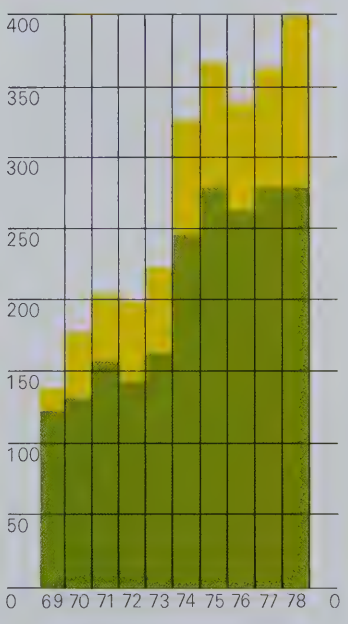
Structural steel markets have been deteriorating since 1976. As a consequence, margins on completed structural contracts have shown a corresponding trend and were lower in 1978 than the prior year.

Distribution margins improved in 1978. Regulatory action to curtail importation of steel into Canada created some shortages of warehouse steel with resulting strengthening of prices for existing supplies. As a consequence, the margins were up on the steel warehousing portion of this product segment.

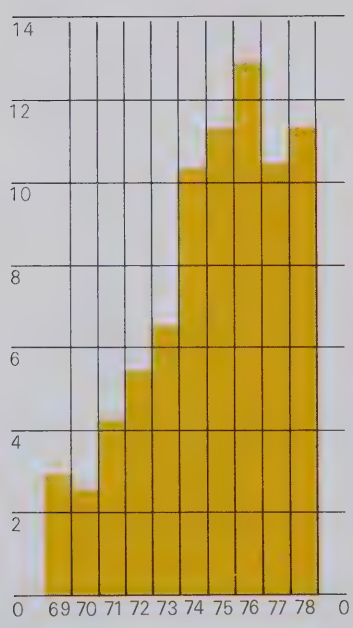
Sales	$400.4		$363.1	
Selling and administrative expenses	**$ 39.5**	**9.9%**	**$ 34.6**	**9.5%**

Expenditures were up nearly $5 million over the previous year and the rate of these

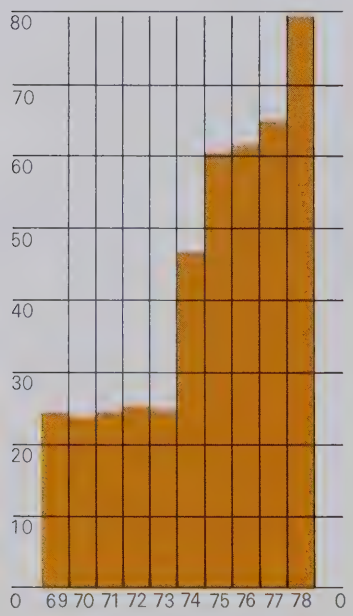
Sales
(in millions of dollars)
Canadian operations
Foreign operations



Net earnings
(in millions of dollars)



Working capital
(in millions of dollars)



expenses increased slightly to 9.9% of sales.

In general, direct selling expenses were held to the same percentage of sales as 1977. A portion of the increases in administrative expenses were caused by non-recurring transactions. Other general costs increased to provide the anticipated organization and services necessary for the future growth of the Company and its operations.

	(millions) 1978	1977
Interest	**$4.8**	**$4.9**

Average borrowing in 1978 was about $3.2 million lower than the previous year. Proceeds from the June 1978 preferred share issue for $15 million were applied to short-term bank borrowing.

Short-term interest rates in Canada and the United States rose sharply in 1978. Canadian bank prime lending rate increased 3.25 percentage points while the U.S. rate went up 4.00 points in the year. "Hard" currency (i.e. Switzerland, Germany, Japan) short-term interest rates generally declined.

Variations in the source and timing of short-term borrowing compared with the previous year resulted in a slight increase in the effective interest to 8.8% for 1978 against 8.6% the previous year. This increase, however, was less than the impact of lower average borrowing. As a consequence, total interest costs for 1978 were about $100,000 lower than 1977.

Net earnings before tax	$20.8		$21.1	
Income tax	**9.4**	**45%**	**10.7**	**51%**

The 1978 effective tax rate of 45% was close to the historical normal rate compared with the abnormally high rate for the previous year (certain foreign exchange transactions in 1977 were not tax effected).

Sales	$400.4		$363.1	
Net earnings	**11.4**	**2.9%**	**10.4**	**2.9%**

The gain at the gross margin level was exceeded by the higher amount of selling and administrative expense resulting in a small decrease in terms of operating profit. However, improvements in the effective tax rate and lower interest expense brought about the increase of $1.0 million in net earnings.

Earnings per common share

	(dollars)	
Basic	$4.13	$3.96
Fully diluted	$4.05	$3.85

The 17 cents (basic) increase per common share for 1978 reflects the result of higher net earnings – $1.0 million, less the increase of $393,000 in preferred share dividends.

Conversion during 1978 of 1974 Issue preferred shares to common shares is reflected in the Basic EPS rate. At the same time, these conversions further reduced the dilution factor to 1.9% at the end of 1978 compared with 2.8% the previous year-end.

FINANCIAL CONDITION

	(millions) 1978	1977
Working capital	**$79.8**	**$64.4**

The working capital ratio of 1.8:1 is unchanged from the previous year. The 1978 ratio was aided by an infusion of the $15 million proceeds from the June preferred equity issue (the company's target is a ratio of 1.5:1 or higher).

Trade receivables showed a modest improvement with days outstanding decreasing 11.3% compared with the previous year.

Inventories increased $29.7 million to a total of $105.1 million at the end of 1978. Curtailment of imports and capacity limitations of Canadian steel mills combined to create shortages and disruptions in the procurement of structural steel. This condition necessitated higher than normal stockpiling of steel for contracts.

The impact of the weak Canadian structural steel markets was also evident in the less favourable financial terms of contracts. The ratio of progress billings to total cost of construction in progress was lower than the previous year resulting in a higher amount of net inventory.

Further devaluation during 1978 of the Canadian dollar raised the equivalent value of inventories at the Company's divisions in the United States and Switzerland. This factor increased the Canadian dollar equivalent of these inventories by $7 million compared with the previous year.

The Company's bank lines of credit were unchanged from the previous year. The maximum amount in use at any one time during 1978 was about 45% of the total amount available. Short-term bank advances net of short-term investments totalled $22.2 million at the end of 1978. The 1977 balance was $26.1 million.

	(millions) 1978	1977
Capital expenditures	**$12.5**	**$11.2**
Depreciation	**$ 7.8**	**$ 7.2**

1978 capital expenditures of $12.5 million were largely for modernization of plants and replacements of machine tools and other production equipment. The major projects started in 1977 for new electric melt facilities at the Company's New Liskeard, Ontario general foundry, and Trois Rivières, Quebec iron pipe foundry were completed in 1978. The final cost of these projects was $5.5 million with $2.9 million spent in 1978 and the balance the previous year.

Long-term debt	**$29.6**	**$31.2**

No new long-term debt was incurred in 1978. Debt repayment for the year totalled $1.4 million and included open market purchases of $1.1 million of sinking fund debentures. The debenture purchases were sufficient to prepay most of the sinking fund requirements for the year 1979 (the 1978 sinking fund was prepaid in 1977).

The debt portion of the Company's capitalization decreased for the fourth successive year. The debt/equity ratio at the end of 1978 was 23:77. The comparable ratio for 1977 was 28:72.

Details of long-term debt are shown in Note 4 of the financial statements.

Shareholders' equity		
Preferred	**$ 16.5**	**$ 2.5**
Common	**84.4**	**77.0**
	$100.9	**$79.5**

In June of 1978 the Company completed a private placement of $15 million floating rate preferred shares. In accordance with the terms of the issue, the Company anticipates redeeming the shares commencing in the eighth year and concluding in the tenth year. This will give the issue an average term of 9.4 years. The dividend rate is based on the sum of one-half the Canadian bank prime lending rate plus 1¼%.

The new preferred issue accounts for the increase in the preferred portion of the Company's equity capitalization, after deducting $1.1 million representing the conversion price of 1974 Issue preferred shares converted to common shares in 1978.

The book value of each common share increased $2.33 to $32.07 at December 31, 1978. The return on common shareholders' equity for 1978 was 12.8% compared with 13.2% for the prior year.

Common shares outstanding increased by 44,108 shares in 1978 reflecting the continuing conversion of the 1974 Issue Convertible Preferred shares (the conversion rate is 4 common for each 1974 preferred). A further 756 common shares were issued in the year as stock dividends to shareholders who elected to receive shares rather than cash dividends.

Shares of Canron Inc. common stock traded on the Toronto and Montreal stock exchanges totalled 529,635 shares for the year 1978. Trading volume was 21% lower than in the previous year. Quarterly details of trading volume and price are included in the Highlights on the inside front cover of this report.

Common stock holders of record numbered 3,793 at the end of 1978 compared with 4,031 at the end of the previous year.

Dividends

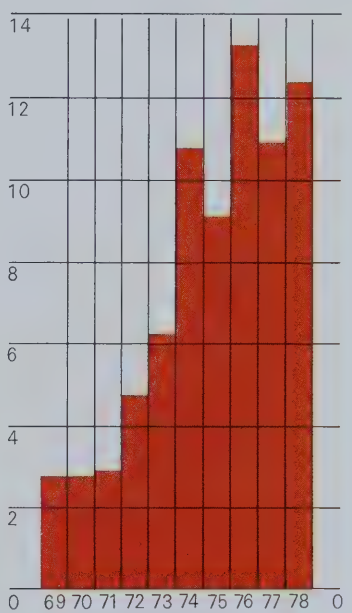
Dividends paid in 1978 on each common share totalled $1.72 which was the same rate as 1977. The 1978 payments represented 41.6% of net earnings.

Based on the closing market price for Canron shares, the common dividend yield was 6.28%. The yield for the Toronto Stock Exchange composite equity portfolio was 4.42%.

Preferred share dividends totalled $573,000 for the year, an increase of $393,000 over 1977. The increase resulted from the issuance of $15 million floating rate preferred shares on June 1, 1978.

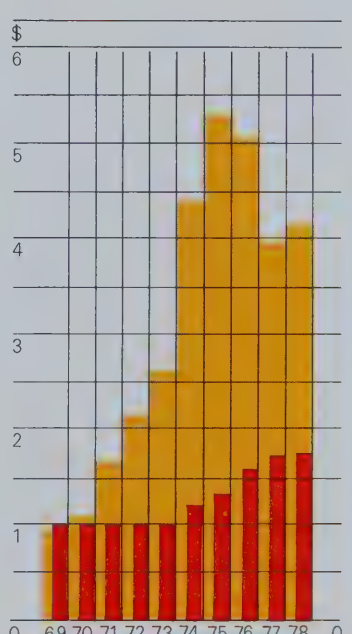
The Company established a common share dividend option in May of 1978 whereby common shareholders could elect to receive either cash or stock dividends.

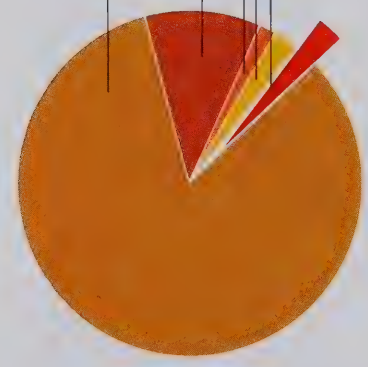
Capital expenditures
(in millions of dollars)



Earnings per share

Dividends per share





Distribution of sales dollar	1978	1977
Cost of sales	**83.7¢**	83.3¢
Selling and administrative expenses	**9.9¢**	9.5¢
Interest expense	**1.2¢**	1.4¢
Income taxes	**2.3¢**	2.9¢
Earnings	**2.9¢**	2.9¢
Dividends	**1.3¢**	1.3¢
Retained earnings	**1.6¢**	1.6¢
	2.9¢	2.9¢

A total of 756 shares corresponding to $20,391 of dividends were issued from treasury during 1978 under the new stock dividend option.

Accounting policies

A Summary of Significant Accounting Policies is given on page 24.

Another year has passed without producing any agreement on a meaningful and practical method of expressing the effects of inflation on the operating results and financial condition of a business enterprise.

The Company believes its shareholders and others who use the financial statements will not be well served by the use of experimental or other accounting policies which do not have broad general acceptance as a means of presenting inflation adjusted financial data.

Canron staff members will continue to support and participate in research on suitable ways of presenting inflation adjusted accounting data, with a view to making the appropriate disclosure as soon as practicable.

Consolidated statement of earnings

Year ended December 31, 1978		(thousands of dollars)	
		1978	1977
		$	$
Sales (note 1)		**400,408**	363,101
Costs and expenses	Cost of sales	**335,315**	302,538
	Selling and administration	**39,502**	34,581
	Interest	**4,838**	4,917
	Income taxes	**9,339**	10,700
Net earnings for the year		**11,414**	10,365
Earnings per common share	Basic	**$4.13**	$3.96
	Fully diluted	**4.05**	3.85

Consolidated statement of retained earnings

Year ended December 31, 1978		(thousands of dollars)	
		1978	1977
		$	$
Balance – beginning of year		**65,967**	60,207
	Net earnings for the year	**11,414**	10,365
		77,381	70,572
	Dividends – (note 5)		
	Preferred shares		
	1974 Issue	**115**	180
	Series A	**458**	
	Common shares		
	Class A	**4,459**	4,425
	Class B	**36**	
		5,068	4,605
Balance – end of year		**72,313**	65,967

Consolidated statement of financial position

	December 31, 1978	(thousands of dollars)	
		1978	1977
		$	$
Current assets	Cash	**1,002**	3,192
	Short-term investments	**2,497**	641
	Accounts receivable	**73,736**	67,547
	Inventories (note 2)	**105,129**	75,408
	Prepaid expenses	**1,678**	1,316
		184,042	148,104
Current liabilities	Bank advances and notes payable	**24,683**	26,716
	Accounts payable and accrued liabilities	**64,596**	50,433
	Dividends	**1,154**	1,151
	Income taxes – current		519
	– deferred relating to contracts	**13,122**	4,442
	Long-term debt maturing within one year (note 4)	**712**	459
		104,267	83,720
Working capital		**79,775**	64,384
Fixed and other assets	Land, buildings and equipment – at cost, less depreciation (note 3)	**57,498**	53,270
	Accounts receivable – long-term	**881**	1,080
	Patents – at cost, less amortization	**62**	315
	Unamortized debenture discount	**446**	483
		58,887	55,148
Capital employed		**138,662**	119,532
Represented by			
Deferred income taxes		**8,217**	8,795
Long-term debt (note 4)		**29,573**	31,231
Shareholders' equity	Preferred shares (note 5)	**16,437**	2,540
	Common shares (note 5)	**12,122**	10,999
	Retained earnings	**72,313**	65,967
		100,872	79,506
		138,662	119,532

Signed on behalf of the Board

H. J. Lang, Director

C. S. Malone, Director

Consolidated statement of changes in financial position

	Year ended December 31, 1978	(thousands of dollars)	
		1978	1977
		$	$
Source of funds	Net earnings	**11,414**	10,365
	Depreciation and amortization	**8,094**	7,473
	Deferred income taxes	**(578)**	2,679
	Provided from operations	**18,930**	20,517
	Proceeds from disposals of fixed assets	**465**	543
	Proceeds on issue of preferred shares, Series A	**15,000**	
	Decrease (increase) in long-term accounts receivable	**199**	(246)
		34,594	20,814
Use of funds	Additions to fixed assets	**12,497**	11,236
	Reduction of long-term debt	**1,658**	1,825
	Dividends (note 5)	**5,048**	4,605
	Redemption of preferred shares – 1956 Series		528
		19,203	18,194
Increase in working capital		**15,391**	2,620
Working capital – beginning of year		**64,384**	61,764
Working capital – end of year		**79,775**	64,384
Changes in elements of working capital			
Current assets – Increase (Decrease)			
	Cash	**(2,190)**	2,194
	Short-term investments	**1,856**	(18,392)
	Accounts receivable	**6,189**	3,785
	Inventories	**29,721**	14,490
	Prepaid expenses	**362**	443
		35,938	2,520
Current liabilities – Increase (Decrease)			
	Bank advances and notes payable	**(2,033)**	142
	Accounts payable and accrued liabilities	**14,166**	460
	Income taxes – current	**(519)**	(855)
	– deferred relating to contracts	**8,680**	366
	Long-term debt maturing within one year	**253**	(213)
		20,547	(100)
Increase in working capital		**15,391**	2,620

Auditors' report to the shareholders

We have examined the consolidated statement of financial position of Canron Inc. as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered accountants

February 14, 1979

Summary of significant accounting policies

Year ended December 31,1978

Consolidation
The consolidated financial statements include the accounts of all subsidiaries from the date of acquisition. All inter-company balances and transactions are eliminated.

Revenue recognition
Sales and earnings are recorded when goods are shipped or services provided to the customer, or when a construction contract is substantially complete. The concept of completed contracts is particularly applicable to the structural steel divisions which accounted for 23% of the 1978 sales. Construction contracts frequently extend over several years, resulting in significant fluctuations in quarterly and annual sales and profit from this source.

Research and development
Expenditures for product research and development are expensed as incurred.

Income taxes
Income taxes are based on earnings reported in the consolidated financial statements. Timing differences for payment of taxes result from deferments of income on contracts in progress, as well as from tax incentives such as accelerated depreciation. Taxes arising from these differences are accounted for as deferred income taxes and are classified as current or non-current liabilities, depending on the nature of the asset against which the difference arises. These timing differences do not reduce the final amount of taxes payable.

Net earnings per share
Basic earnings per common share (Class A and B) are computed on the basis of the average number of shares outstanding during the period, after deducting dividends on preferred shares. The average number of shares outstanding in 1978 and 1977 was 2,611,157 and 2,569,025 respectively. Fully diluted earnings per common share are computed as though the outstanding preferred shares – 1974 Issue had actually been converted to common shares at the beginning of the year.

Inventory valuation
Inventories are valued at the lower of cost or market. Costs are determined on an average basis or on a first in, first out (FIFO) basis. Manufactured inventories include costs for materials, labour and factory overhead. Costs incurred to date on uncompleted construction contracts are classified as work in process. Progress billings on contracts are deducted from inventories.

Fixed assets
Land, buildings and equipment are recorded at cost.
Depreciation is based on the estimated useful life for each major classification of assets, calculated principally on the diminishing balance method. Rates range from 2.5% for some buildings to 30% for automotive and mobile construction equipment.
Maintenance and repairs, and minor replacements are expensed as incurred. Improvements which significantly increase the useful life of assets are capitalized.

Patents
Patents purchased in prior years are being amortized over twelve years.

Foreign currency translation
Net working capital of all non-Canadian operations is translated to Canadian dollars at exchange rates in effect at year-end. The remainder of the assets and liabilities are translated at historical exchange rates. Income and expenditures of these operations are translated at average exchange rates for the year.

Exchange gains and losses
Realized gains and losses on foreign exchange transactions are recorded in the period in which they are incurred. Unrealized gains net of unrealized losses resulting from the translation of the accounts of non-Canadian operations are deferred.

Notes to consolidated financial statements

1. Classes of business

Based on the products and operations of the Corporation, the following classes of business have been determined by the directors:

	Sales (thousands of dollars)	
	1978	1977
	$	$
Foundry	**59,851**	54,413
Pipe	**88,069**	82,738
Machinery	**31,667**	34,938
Railway	**100,352**	68,663
Structural steel	**92,809**	94,531
Distribution	**27,660**	27,818
	400,408	363,101

2. Inventories

	(thousands of dollars)	
	1978	1977
	$	$
Finished products	**22,929**	27,252
Work in process	**102,653**	78,303
Raw materials	**39,918**	37,268
	165,500	142,823
Less: Progress billings	**60,371**	67,415
	105,129	75,408

3. Fixed assets

	(thousands of dollars)			
	1978			1977
	Cost	**Accumulated depreciation**	**Net**	Net
	$	**$**	**$**	$
Land	**4,204**		**4,204**	4,187
Buildings	**38,303**	**19,082**	**19,221**	18,586
Equipment	**95,103**	**61,030**	**34,073**	30,497
	137,610	**80,112**	**57,498**	53,270

4. Long-term debt

	(thousands of dollars)	
	1978	1977
	$	$
Debentures		
Canron Inc.		
6¾% sinking fund debentures, series D		
due May 15, 1987	**9,000**	9,600
Sinking fund requirements –		
$600,000 May 15, 1970 to 1979		
$800,000 May 15, 1980 to 1986		
9¼% sinking fund debentures, series E		
due April 1, 1994	**14,187**	14,700
Sinking fund requirements –		
$650,000 April 1, 1977 to 1986		
$850,000 April 1, 1987 to 1993		
Matisa Matériel Industriel S.A.		
5½% sinking fund debentures,		
due December 15, 1983	**1,097**	1,105
Sinking fund requirements –		
S. frs. 200,000 December 15, 1978 to 1982		
8½% debentures, due October 15, 1986	**1,500**	1,500
Canron Southern Inc.		
8½% to 8⅞% due in annual instalments to 1994	**2,700**	2,900
Mortgages – 3% to 11⅜% due at various dates to 1990		
Canron Inc.	**274**	311
Matisa Matériel Industriel S.A.	**1,527**	1,574
	30,285	31,690
Maturing within one year	**712**	459
Maturing after one year	**29,573**	31,231
	30,285	31,690

Payments required in the next five years to meet long-term debt requirements and sinking fund provisions (assuming historical exchange rates except for 1979 which is at the December 31, 1978 rate).

	(thousands of dollars)
1979	**$ 712**
1980	**1,862**
1981	**1,871**
1982	**1,881**
1983	**1,880**

5. Capital stock

In May 1978, the Corporation was continued under the Canada Business Corporations Act which resulted in the following changes to the capital structure of the Corporation:

1. the 50,000 authorized preferred shares, 1974 Issue of $100 par value are now of no par value.
2. the 5,000,000 authorized preferred shares issuable in series of $25 par value are now an unlimited number of no par value shares, issuable in series.
3. the 6,000,000 authorized common shares of no par value are designated now as an unlimited number of Class A common shares of no par value and additionally, an unlimited number of Class B common shares of no par value were authorized.

(a) Preferred shares		
Authorized –		
50,000 first preferred shares, without par value, all of which have been issued		
Unlimited number of preferred shares, issuable in series, without par value		
Outstanding and fully paid –		
14,370, $6.00 cumulative convertible redeemable first preferred shares, 1974 Issue	**1,437**	2,540
600,000 floating rate cumulative redeemable retractable preferred shares, Series A	**15,000**	
	16,437	2,540

Capital stock
continued

Each preferred share, 1974 Issue, is convertible at the option of the holder until April 1, 1984 into four fully paid Class A or Class B common shares. The preferred shares, 1974 Issue, are redeemable at the option of the Corporation out of a Retirement Fund commencing in 1985 at $103 or otherwise at $106 plus, in each case, an amount equal to all accrued and unpaid dividends. A total of 11,027 shares were converted in 1978 (1977 – 11,165).
The preferred shares, Series A are entitled to cumulative dividends equal to the sum of one half of the Canadian bank prime lending rate and one and one quarter percent. The dividend formula may be adjusted. The shares are redeemable at the option of the Corporation at $25 plus an amount equal to all accrued unpaid series A dividends except that no shares may be redeemed prior to June 1, 1981, unless the dividend formula is altered. The Corporation must offer to purchase Series A shares during the month of April of the following years:

	Number of shares
1986	120,000
1987	120,000
1988	All outstanding shares

(b) Common shares

	(thousands of dollars)	
	1978	1977
	$	$
Authorized –		
Unlimited number of Class A convertible and Class B convertible common shares of no par value		
Outstanding and fully paid –		
2,595,710 Class A common shares	**11,938**	10,999
37,188 Class B common shares	**184**	
	12,122	10,999

The Class A and B common shares are inter-convertible and subject to the same rights, privileges, restrictions and conditions except that the payment of dividends on the Class B shares may be paid in Class B shares instead of cash.
During 1978, the outstanding share capital changed as follows:
1. 43,048 Class A shares were issued upon the conversion of preferred shares, 1974 Issue.
2. 35,372 Class B shares were issued upon the conversion of 35,372 Class A shares.
3. 1,060 Class B shares were issued upon the conversion of preferred shares, 1974 Issue.
4. 756 Class B shares (at the equivalent market value of $20,391) from stock dividends.
A further 565 ($15,413) Class B common shares were declared as a stock dividend in December 1978, issuable in January 1979.

6. Pension plans

Under the pension plans of the Corporation and certain subsidiaries there existed an unfunded past service pension liability estimated at $6,100,000. This liability and interest is being funded by equal annual installments of $740,000 to December 31, 1981, $650,000 thereafter to December 31, 1990; $625,000 thereafter to December 31, 1992 and $35,000 thereafter to December 31, 1996. These amounts will be charged to operations when paid.

7. Statutory information

	(thousands of dollars)	
	1978	1977
	$	$
The following items are included in the consolidated statement of earnings:		
Depreciation	**7,804**	7,181
Amortization of – patents	**253**	255
– debenture discount	**37**	37
Interest on long-term debt	**2,868**	2,819
Remuneration of directors	**71**	64
Remuneration of officers	**1,277**	1,216

Ten year review

		1978	1977
		(dollar amounts in millions except per share figures)	
Annual amounts	Sales	**$400.4**	363.1
	Cost of sales	**$335.3**	302.5
	Selling and administrative expenses	**$ 39.5**	34.6
	Interest	**$ 4.8**	4.9
	Income taxes	**$ 9.4**	10.7
	Earnings (before extraordinary item)	**$ 11.4**	10.4
	As percentage of sales	**2.9%**	2.9%
	Extraordinary item	—	—
	Net earnings	**$ 11.4**	10.4
	Earnings per common share		
	Earnings (before extraordinary item)	**$ 4.13**	3.96
	Extraordinary item	—	—
	Dividend paid per common share	**$ 1.72**	1.72
	Capital expenditures	**$ 12.5**	11.2
	Depreciation	**$ 7.8**	7.2
	Return on common shareholders' equity	**12.8%**	13.2%
	Return on capital employed	**8.2%**	8.7%
Year-end position	Current assets		
	Short-term investments	**$ 2.5**	0.6
	Accounts receivable	**$ 73.7**	67.6
	Inventories	**$105.1**	75.4
	Other	**$ 2.7**	4.5
	Total	**$184.0**	148.1
	Current liabilities		
	Bank advances and notes payable	**$ 24.6**	26.7
	Accounts payable and accrued liabilities	**$ 64.6**	50.4
	Other	**$ 15.0**	6.6
	Total	**$104.2**	83.7
	Working capital	**$ 79.8**	64.4
	Current ratio	**1.8**	1.8
	Land, buildings and equipment – net	**$ 57.5**	53.2
	Other assets	**$ 1.4**	1.9
	Capital employed	**$138.7**	119.5
	Deferred income taxes	**$ 8.2**	8.8
	Long-term debt	**$ 29.6**	31.2
	Shareholders' equity		
	Preferred	**$ 16.5**	2.5
	Common	**$ 84.4**	77.0
	Total	**$100.9**	79.5
	Book value per common share	**$ 32.07**	29.74
	Number of common shareholders	**3,793**	4,031
	Common shares outstanding	**2,632,898**	2,588,034
	Number of employees	**5,723**	5,557
	Backlog of orders	**$215.5**	171.4

1976	1975	1974	1973	1972	1971	1970	1969
338.5	366.0	325.7	223.8	199.4	205.2	176.7	138.1
273.5	301.0	270.2	186.8	167.1	175.5	150.5	117.8
33.5	32.3	27.5	21.8	19.6	18.5	16.7	13.5
4.4	8.0	7.8	4.1	3.3	3.8	4.7	2.3
14.1	11.1	9.0	4.6	4.0	3.2	2.1	2.0
13.0	13.6	11.2	6.5	5.4	4.2	2.7	2.5
3.8%	3.7%	3.4%	2.9%	2.7%	2.1%	1.5%	1.8%
—	(2.3)	(0.9)	—	—	—	(0.2)	0.5
13.0	11.3	10.3	6.5	5.4	4.2	2.5	3.0
5.05	5.31	4.39	2.60	2.13	1.66	1.05	0.97
—	(0.90)	(0.36)	—	(0.01)	—	(0.07)	0.20
1.60	1.30	1.20	1.00	1.00	1.00	1.00	1.00
13.3	9.4	10.9	6.3	4.8	2.9	2.8	2.8
6.6	6.5	5.6	4.8	4.5	4.4	4.1	3.2
18.1%	18.2%	19.1%	14.1%	12.6%	10.6%	6.5%	7.8%
11.4%	10.7%	10.8%	9.4%	7.8%	6.2%	3.7%	4.7%
19.0							
63.8	67.0	76.5	49.1	42.5	38.5	38.5	36.8
60.9	68.9	80.5	50.0	36.9	37.6	42.4	39.3
1.9	1.6	2.2	2.1	1.7	2.1	1.6	1.6
145.6	137.5	159.2	101.2	81.1	78.2	82.5	77.7
26.5	20.8	51.4	34.8	20.1	19.8	23.1	21.1
50.0	44.3	51.5	32.7	26.1	26.6	28.8	24.4
7.3	11.9	9.4	8.7	9.1	7.3	6.8	7.9
83.8	77.0	112.3	76.2	55.3	53.7	58.7	53.4
61.8	60.5	46.9	25.0	25.8	24.5	23.8	24.3
1.7	1.8	1.4	1.3	1.5	1.5	1.4	1.5
49.7	42.0	44.3	39.8	37.1	39.5	41.0	34.7
1.9	3.2	4.1	5.0	5.3	4.3	4.5	5.3
113.4	105.7	95.3	69.8	68.2	68.3	69.3	64.3
6.1	5.2	4.4	3.9	3.4	2.8	2.5	2.8
33.0	34.5	32.2	18.4	21.2	24.6	27.4	22.0
4.2	5.6	6.0	1.6	1.7	1.8	1.9	2.0
70.1	60.4	52.7	45.9	41.9	39.1	37.5	37.5
74.3	66.0	58.7	47.5	43.6	40.9	39.4	39.5
27.56	24.16	21.15	18.43	16.83	15.71	15.05	15.07
4,220	4,055	4,044	4,141	4,301	4,687	4,847	4,926
2,543,374	2,500,694	2,490,154	2,489,622	2,489,622	2,489,622	2,489,622	2,489,622
5,823	6,285	7,649	6,573	5,655	6,114	6,655	5,197
206.1	192.6	217.3	131.2	71.6	68.6	88.1	86.5

Facilities, products & services

Eastern Structural Norman Dickinson, General Manager Main Office: 100 Disco Road Rexdale, Ontario M9W 1M1 Tel. (416) 675-6400	Offices: Montreal, Que.; Rexdale, Ont. Plants: Montreal, Que.; Rexdale, Ont.	Structural Steel fabrication and erection for buildings and bridges Construction Services Steel Joists Fabrication and erection of water and vapour conservation tanks Fabrication, erection and repairs of A.S.M.E. vessels Microwave Structures Transmission Poles and Towers Hydraulic Gates Bulk Loading Terminals	Container Cranes Gantry Cranes Conveyor Systems Shipping Containers Galvanizing Warehouse Steel
Western Bridge Gordon Ward-Hall, General Manager Main Office: 145 West First Avenue Vancouver, B.C. V5Y 1A2 Tel. (604) 874-2311	Offices: Vancouver, B.C.; Tacoma, Wash. Plants: Vancouver, B.C.; Tacoma, Wash.		
Mechanical Norman Dickinson, General Manager Main Office: 100 Disco Road Rexdale, Ontario M9W 1M1 Tel. (416) 675-7440	Offices: Ville d'Anjou, Que.; Rexdale, Ont. Plant: Trois-Rivières, Que.	Pulp and Paper Machinery Steel Mill Equipment Rolling Mill Machinery Pipeline Valves Bulk Handling Equipment Cranes and Hoisting Machinery	Hydraulic Gates Gear Drives Special Purpose Machinery Custom Fabrication and Platework Contract Machining
Plastics Roger A. St. Louis, General Manager Main Office: 9200 blvd. de l'Acadie Montreal, Quebec H4N 2T2 Tel. (514) 381-9331	Offices: Montreal, Que.; Rexdale, Ont.; Saint John, N.B. Plants: Berthierville, St. Jacques, Que.; Rexdale, Ont.; Saint John, N.B.	Plastic Pipe and Fittings Water – Polyethylene, PVC and CPVC Waste – Drain, Waste and Vent (ABS) Sewer (ABS and PVC)	Electrical – Underground Duct (PVC) Rigid Conduit (PVC) Farm Drainage – Corrugated Pipe
Foundry John M. Gandy, General Manager Main Office: 3050 Harvester Road Burlington, Ontario L7N 3K7 Tel. (416) 681-1221	Offices: Burlington, New Liskeard, Ont. Plants: Hamilton (2), St. Thomas, New Liskeard, Ont.	Ingot Moulds and Stools Brakeshoes Municipal Castings Mill Liners	Various Grey, Ductile and Alloy Iron Castings Mine Cars, Cages and Skips
Pipe Guy F. Talbot, Acting General Manager Main Office: 2120 Sherbrooke St. E. Montreal, Quebec H2K 1C3 Tel. (514) 527-3121	Offices: Dartmouth, N.S.; Ville d'Anjou, Montreal, Quebec City, Que.; Ottawa, Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C. Plants: Ville d'Anjou, Trois-Rivières, Que.; Toronto, Rexdale, Ont.; Calgary, Cochrane, Alta.	Ductile Iron Pipe Concrete Pressure Pipe Wear Resistant Pipe Fittings Hydrants	

Tamper Arnold F. Bygate, General Manager Main Office: 2401 Edmund Road West Columbia, S.C. 29169 Tel. (803) 794-9160	Offices: W. Columbia, S.C.; Toronto, Ont.; Lachine, Que.; Melbourne, Australia; Plants: W. Columbia, S.C.; Toronto, Ont.; Melbourne, Australia	Tamping Equipment – Manual, Semi Automatic Fully Automatic Production Tampers Switch Tampers Spot Tampers Track Equipment – Track Renewal Trains Car Movers Rail Laying Machines Rail Renewal Systems Automatic Spike Drivers Track Recording Cars Brush Cutters, Snow Blowers Rail Gauging Machines Rail Lubricators Track Gauges and Levels	Ballasting Equipment – Ballast Cleaners, Regulators Compactors, Switch and Track Undercutters Power Tools – Tie Renewers, Rail Saws Tie Drills, Spike Pullers and Drivers, Rail Bolters Drills, Grinders
Matisa Ragnar Blomqwist, General Manager Main Office: Arc-en-Ciel 2, Crissier, Switzerland Tel. (021) 34.99.31	Offices: Crissier, Switzerland; Bielefeld, West Germany; Palomba, Italy; Paris, France; Madrid, Spain; Tokyo, Japan Plants: Crissier, Renens, Switzerland; Palomba, Italy; Madrid, Spain; Sens, France		
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Iron Ore Company of Canada,
Montreal

James T. Black
President and Chief
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The Molson Companies
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President and Chief Executive
Officer, The Alberta Gas Trunk
Line Company Limited,
Calgary

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Chairman of the Board,
Laiterie Laval Limitée, Quebec

John S. Dinnick
Corporate Director, formerly
Chairman of the Board,
McLeod Young Weir Limited,
Toronto

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Chairman and Chief Executive
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Company of Canada,
Montreal

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Corporate Director, formerly
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Officer, Canadian Pacific Air
Lines, Limited, Vancouver

John D. Houlding
President and Chief Executive
Officer, Polar Gas Project,
Toronto

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Partner, Ogilvy, Montgomery,
Renault, Clarke, Kirkpatrick,
Hannon & Howard, Montreal

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Chairman of the Board,
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President and Chief Executive
Officer, Canron Inc., Montreal

Paul L. Paré
President and Chief Executive
Officer,
Imasco Limited, Montreal

Charles Perrault
President, Perconsult Ltd.,
Montreal

Frank H. Sherman
President and Chief Executive
Officer, Dominion Foundries
and Steel, Limited, Hamilton

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Maxwell W. Mackenzie
Alan D. McCall

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P. Côté, J. D. Houlding,
J. G. Kirkpatrick, H. J. Lang,
C. S. Malone, P. L. Paré

Audit Committee

J. S. Dinnick, J. C. Gilmer,
J. G. Kirkpatrick, C. Perrault,
F. H. Sherman

Management Resources and Compensation Committee

W. J. Bennett, T. M. Galt,
J. G. Kirkpatrick, H. J. Lang,
C. S. Malone, P. L. Paré

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Chairman of the Board

Clifford S. Malone
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Officer

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Executive Vice-President and
Chief Operating Officer

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Finance

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Group Vice-President

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Group Vice-President

Frank E. Miller
Vice-President, Corporate
Development

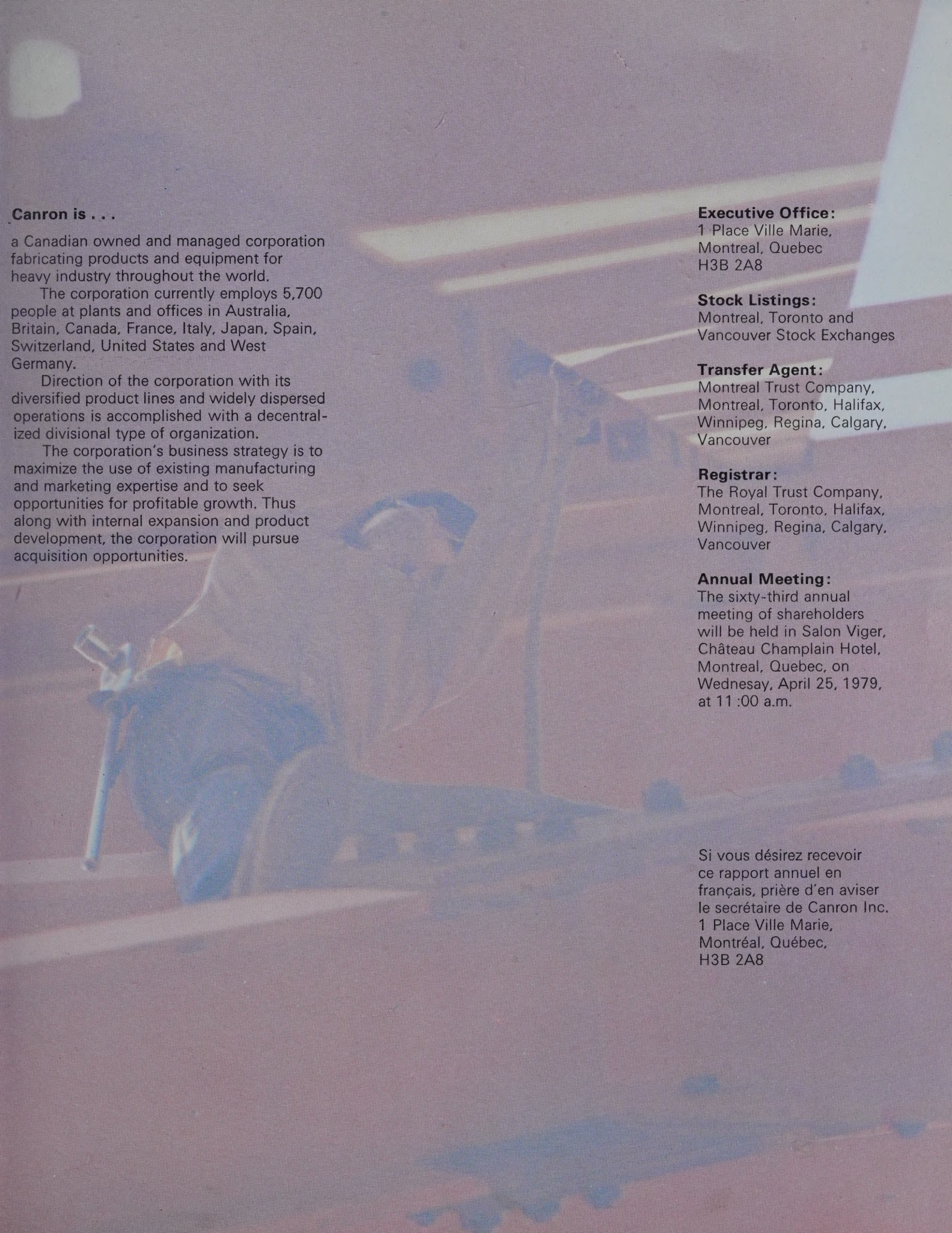
Fred A. Collier
Vice-President, Personnel and
Industrial Relations

Charles M. Thomson
Vice-President

Gerald Lefebvre
Secretary

William C. Hamilton
Controller

William D. Moncur
Treasurer



Canron is . . .

a Canadian owned and managed corporation fabricating products and equipment for heavy industry throughout the world.

The corporation currently employs 5,700 people at plants and offices in Australia, Britain, Canada, France, Italy, Japan, Spain, Switzerland, United States and West Germany.

Direction of the corporation with its diversified product lines and widely dispersed operations is accomplished with a decentralized divisional type of organization.

The corporation's business strategy is to maximize the use of existing manufacturing and marketing expertise and to seek opportunities for profitable growth. Thus along with internal expansion and product development, the corporation will pursue acquisition opportunities.

Executive Office:
1 Place Ville Marie,
Montreal, Quebec
H3B 2A8

Stock Listings:
Montreal, Toronto and
Vancouver Stock Exchanges

Transfer Agent:
Montreal Trust Company,
Montreal, Toronto, Halifax,
Winnipeg, Regina, Calgary,
Vancouver

Registrar:
The Royal Trust Company,
Montreal, Toronto, Halifax,
Winnipeg, Regina, Calgary,
Vancouver

Annual Meeting:
The sixty-third annual meeting of shareholders will be held in Salon Viger, Château Champlain Hotel, Montreal, Quebec, on Wednesay, April 25, 1979, at 11 :00 a.m.

Si vous désirez recevoir ce rapport annuel en français, prière d'en aviser le secrétaire de Canron Inc.
1 Place Ville Marie,
Montréal, Québec,
H3B 2A8

CANRON INC.